



# Petroleum Market Report

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Energy Information Administration  
Office of Oil & Gas

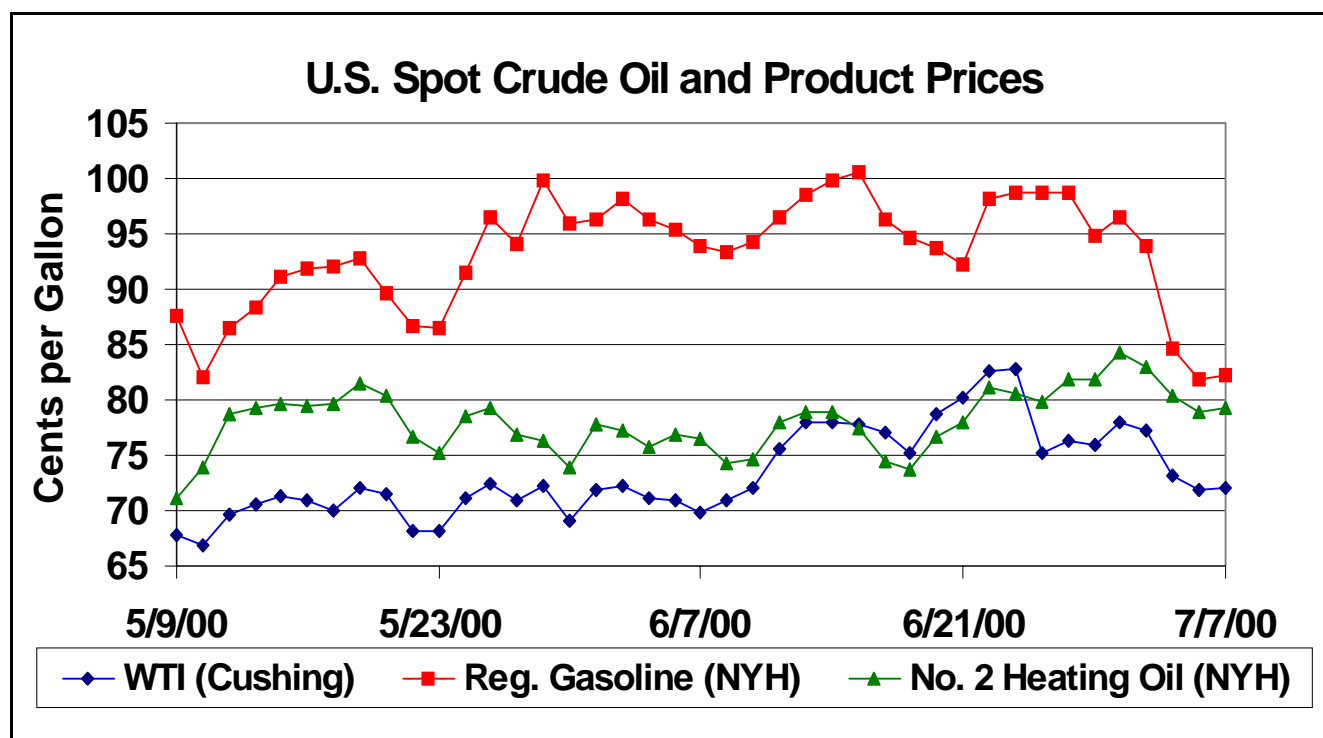
## MARKET SUMMARY

A sharp drop in gasoline prices led U.S. petroleum markets lower last week, after Saudi Arabia announced on Monday, July 3, that it would add up to 500,000 barrels per day to crude oil production if prices failed to fall to desired levels. With U.S. markets closed on Monday and Tuesday for the extended Independence Day holiday, the brunt of the price decreases was seen on Wednesday, July 5. Prices continued to decline through Thursday, before recovering slightly on Friday amid signs of dissent among other OPEC members about the reported Saudi Arabian plans. Unexpected shifts in weekly stock levels and changes in operational status at various U.S. refineries were also factors in the week's price movements.

**Crude oil** - markets worldwide were dominated all week by talk of the Saudi plan for possible production increases beyond those agreed at the June 21 OPEC meeting. After the agreed-upon OPEC quota increase of 708,000 barrels per day starting July 1 failed to have sufficient impact on crude oil prices, Saudi Arabia was reported to be ready to sponsor a larger increase, with possible cooperation from several other producers. As the week went on, however, other OPEC members expressed doubts that Saudi Arabia would act unilaterally, and indicated a lack of agreement about the need to raise production further.

**Gasoline** - prices were the hardest hit by last week's developments, including the potential increase in crude oil production, as well as an unexpected gasoline stockbuild and the anticipated return of several key refinery units from unscheduled downtime. Recently inflated spot prices in the Midwest continued to drop, while even the West Coast reversed a 2-week rise to join the decline.

**Distillate** - prices generally followed the crude oil market trend, though posting a smaller decline for the week. Flattening of inventories in recent weeks at unseasonably low levels has increased concerns about supply adequacy for the coming winter.



## **CHRONOLOGY OF RECENT MARKET EVENTS**

- 7/7 - rising** - crude oil and product prices posted modest increases, ending a 3-day decline, as other OPEC members expressed doubts that Saudi Arabia would unilaterally act to raise production. Exxon Mobil's Beaumont refinery returned to normal after a week of operational disruptions.
- 7/6 - falling** - gasoline led prices lower for a third day, as Saudi Arabia reaffirmed its readiness to raise production, with or without cooperation from other producers. An unexpected U.S. stockbuild for the previous week contributed to gasoline price weakening.
- 7/5 - falling** - spot and futures prices fell sharply, led by gasoline, following Monday's announcement by Saudi Arabia that it would increase crude oil production by up to 500,000 barrels per day in order to return prices to desired levels. A major Gulf Coast refinery was reported having problems, while Sunoco's Point Breeze (Pennsylvania) refinery was reported near returning to normal.
- 6/30 - falling** - all prices ended lower in late profit-taking, ahead of both the extended holiday weekend and expiration of the July NYMEX product contracts at the close. Hints from Saudi Arabia about the possibility of further output increases were also bearish.
- 6/29 - rising** - prices rose solidly marketwide, led by sharp gains in distillates following Congressional testimony on concerns for the coming winter. Crude oil prices rose with products, despite announcement of a 100,000-barrel-per-day increase in Norwegian production.
- 6/28 - falling** - gasoline led all prices lower, in the wake of weekly supply reports from API and EIA showing unexpected gasoline stockbuilds, along with increases in crude oil and distillate inventories as well. Mention by President Clinton of the possibility of further releases from the Strategic Petroleum Reserve contributed to downward pressures.
- 6/27 - mixed** - crude oil and most product prices moved higher, ahead of the weekly API and EIA supply reports. With markets still seemingly unconvinced by OPEC's quota increase, the cartel's president, along with Mexico's energy minister, said a further increase was possible if needed.
- 6/26 - falling** - most prices turned downward in profit-taking after the previous week's rise, in what appeared to be a delayed reaction to OPEC's agreement to increase production quotas by 708,000 barrels per day. A refinery explosion in Kuwait was offset by restarts of FCC units at two U.S. refineries, though another remained offline.
- 6/23 - mixed** - crude oil, gasoline, and propane prices rose, while heating oil and jet fuel prices fell, as the market continued to drive up crude oil prices, despite OPEC's recent decision, as well as an announcement from Mexico that it was increasing oil exports by 75,000 barrels per day. Norway's government also announced the end of an oil workers strike that was affecting production.
- 6/22 - rising** - prices rose across the board, as OPEC's agreement to increase oil production quotas by 708,000 barrels per day fell short of market expectations. In addition, an outage at a gasoline making unit at a Philadelphia area refinery helped to extend gasoline's gains.